



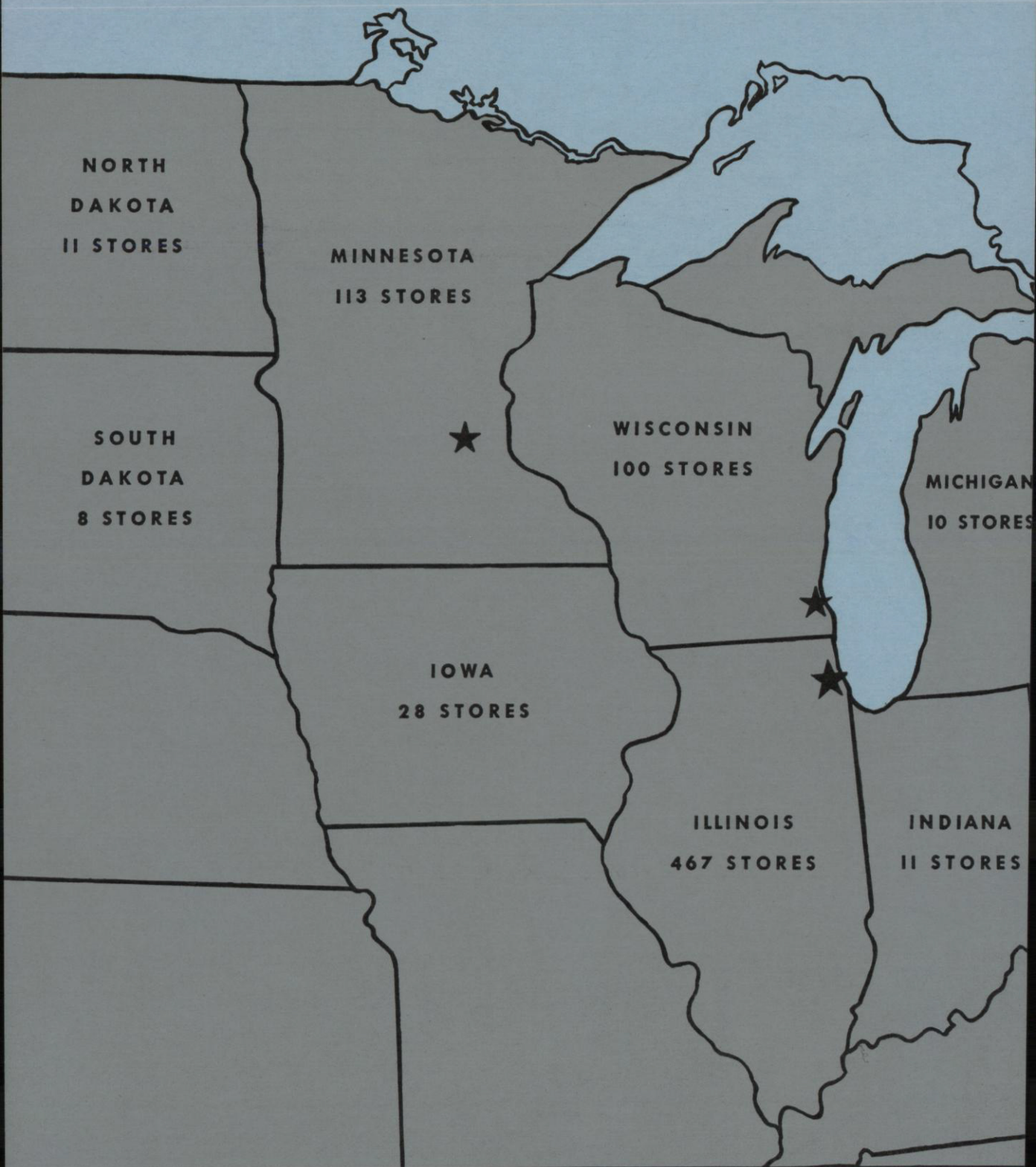
N A T I O N A L T E A C O .

A N N U A L

R E P O R T

to Stockholders

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NATIONAL TEA CO. FOOD STORES

ANNUAL REPORT

TO THE SHAREHOLDERS OF NATIONAL TEA CO.:

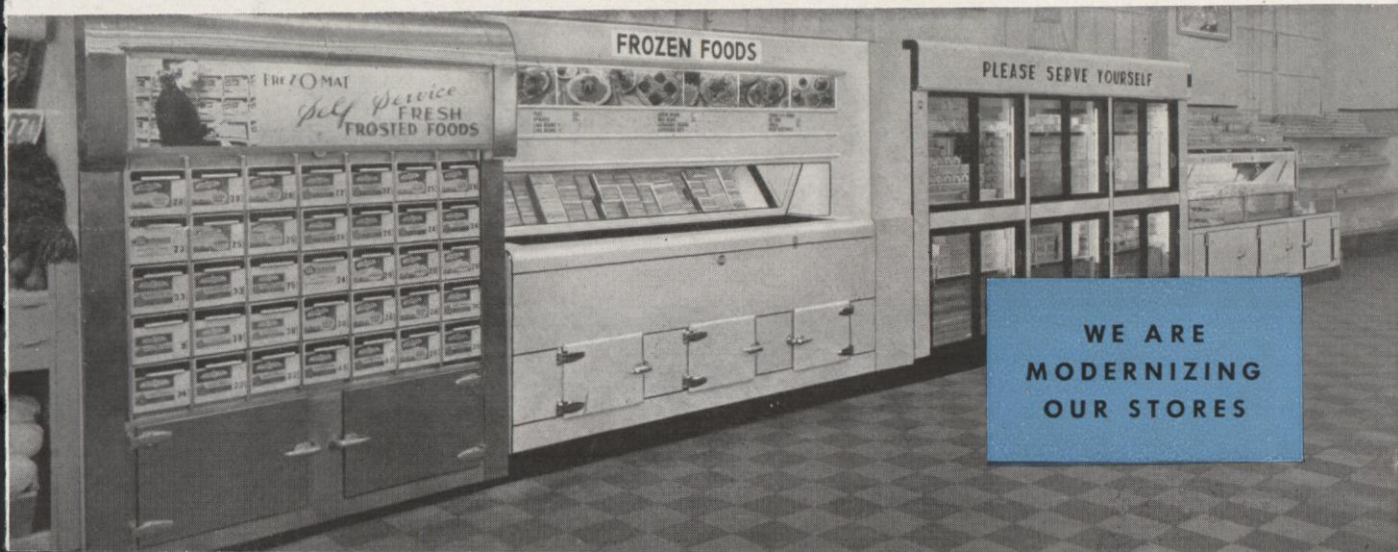
It is a pleasure to submit this report on the operation of your company for the fiscal year 1945. Financial statements certified by independent accountants are shown on the following pages together with brief comments on our progress during the past year.

PROFITS . . .	1945	1944
Profit before taxes.....	\$1,838,058	\$1,730,967
Federal income and excess profit taxes.....	1,044,000	994,000
	<u>794,058</u>	<u>736,967</u>
Depreciation, prior year, less applicable income tax		35,696
Federal income tax credit (resulting from unused excess profit tax credit in prior years).....	119,000	294,000
Net, after taxes.....	\$ 913,058	\$1,066,663

These net profits, after making provision for preferred dividends and considering tax credits, are equivalent to \$1.33 per common share compared with \$1.59 per share for 1944. Federal income and excess profits taxes per share amounted to \$1.48 in 1945 compared with \$1.12 in 1944.

SALES . . .	1945	1944	Increase
Gross Sales	\$106,868,995	\$99,870,475	\$6,998,520

Our gross sales increased 7% over our previous record year of 1944, to a new all-time high.



FINANCIAL . . .

Our working capital has been increased by \$2,716,772 over December 31, 1944 to \$9,214,395. On May 1, 1945 we redeemed the previously outstanding \$2,000,000 issue of \$10.00 par value 5½% preferred stock, and sold privately to financial institutions and insurance companies a new issue of \$2,000,000 of \$50.00 par value 4¼% preferred stock with 30-year sinking fund provisions. In order to augment our working capital, we borrowed \$1,500,000 in 15-year serial notes at an interest rate to us of 2.795%.

We had as of December 31, 1945 \$4,434,741 in cash and \$906,771 in U. S. Government securities, with a ratio of current assets to current liabilities of 2.8 to 1.

DIVIDENDS . . .

During the year 1945 we paid or accrued \$83,428 in preferred dividends and \$529,440 in common dividends, which is equivalent to 85c on common shares outstanding.

MERCHANDISE INVENTORIES . . .

We consider ourselves fortunate in having increased our inventories from \$6,666,419 in 1944 to \$9,521,040 in 1945.

STORES . . .

	1945	1944
Stores (with meat markets).....	452	451
Conventional grocery stores.....	297	376
Total stores on December 31.....	749	827

We are continuing our policy of eliminating lower volume units, of the smaller conventional type, and concentrating our efforts on the larger self-service stores with meat departments. During the year we spent \$899,535 in repairs (charged against profits), remodeling, enlarging and rehabilitating our stores, markets and equipment. This is an increase of \$294,311 over 1944, when we spent \$605,224 for the same purposes. In addition to these expenses, we invested \$757,184 in new capital assets, and would have spent more if they were available.

PACKING PLANTS AND FOOD PROCESSING . . .

Your company operates bakeries in our three principal branches to supply our stores with QUALITY bread and cakes. Coffee roasting, processing of preserves and jellies, salad dressing, peanut butter and beverages are carried on in our Chicago plant, in addition to the packaging of teas, spices, butter, eggs and olives. These functions have provided us with merchandise when it was difficult to obtain, as well as quality control.

On May 21, 1945 we purchased the H & M Packing Co. of Denver, Colorado, and on June 20, 1945 leased the Quality Packing Co. of Milwaukee, Wisconsin. The acquisition of these plants has helped to provide our markets with meat.



REAL ESTATE . . .

Your company owns warehouses in Chicago, Minneapolis and Milwaukee. In 1945 we sold 45 retail store properties and sustained a loss of \$279,854.27, which loss has been deducted in arriving at our profits for the year. As of December 31, 1945, the company owned 114 store properties, which we believe have a market value in excess of book value.

PROPOSED NEW WAREHOUSES . . .

When conditions are favorable, we will relocate the company's Chicago warehouses, main offices, and ultimately, its manufacturing facilities. We further anticipate relocations and enlargements of our Minneapolis and Milwaukee warehouses, as we have outgrown our present facilities. It is our plan, that we not only accommodate our present needs, but also provide for expansion in the areas covered, all with the result of decreasing our present handling and distribution costs.

During the year we obtained an option to purchase a tract of land of approximately 14 acres in a location ideal for distribution to our stores in the Chicago area.

OUTLOOK . . .

It is gratifying to report to the stockholders that the changes in management made early in the year have proved extremely satisfactory and have resulted in bringing together an organization that it is felt will produce results. This is indicated by the fact that our first 1946 accounting period shows that in 23 operating days our sales increased \$2,450,997 or 33.43% over the corresponding period in 1945 which contained 24 operating days.

Many of our employees who were in the armed services, numbering over 2,650, are now returning to the company. We welcome them.

The management wishes me to express appreciation of the efforts of our employees in all positions, who, for the past year, have met and handled many difficult problems. They did a grand job. The favorable results of 1945 also reflect loyal support by our suppliers, and increasing acceptance by our customers.

Respectfully submitted,

February 28, 1946.

Robert J. Rasmussen
PRESIDENT



WE ARE
CONCENTRATING ON
LARGER STORES

NATIONAL TEA CO.

CONSOLIDATED

DECEMBER 31,

ASSETS		1945	1944
CURRENT ASSETS:			
Cash		\$ 4,434,741	\$ 3,601,566
Accounts receivable, less reserves of \$41,197 and \$38,710, respectively		401,218	288,764
Inventories of merchandise and supplies, at lower of cost or market		9,521,040	6,666,419
Total current assets		\$14,356,999	\$10,556,749
PREPAID RENTS, INSURANCE, ETC.		\$ 176,894	\$ 116,456
MORTGAGES AND NOTES RECEIVABLE		\$ 129,603	\$ 35,581
PLANT AND EQUIPMENT, at cost less net write-down of buildings of \$549,071 charged to earned surplus in 1935:			
	Gross	Reserves	
Land	\$ 2,267,699	\$	\$ 2,267,699
Buildings	4,042,099	1,994,460	2,047,639
Fixtures and equipment	7,816,470	5,860,138	1,956,332
	<u>\$14,126,268</u>	<u>\$7,854,598</u>	
Leaseholds and improvements in process of amortization		100,657	106,518
		\$ 6,372,327	\$ 7,196,196
GOODWILL		\$ 1	\$ 1
		<u>\$21,035,824</u>	<u>\$17,904,983</u>

NOTES:

- (1) The Serial Note Agreement dated March 27, 1945, or Articles of Incorporation (a) that amounts expended for dividends on, or purchase of, common stock since December 31, 1944 plus \$85,000 (b) that except for payment of dividends on preferred stock any dividend on, or purchase of, preferred or common stock (c) that the Company will provide on April 1 of each year an amount equal to 10% of the excess of consolidated net income over the amount of dividends paid, if such amount is larger
- (2) At December 31, 1945, 16,250 shares of treasury stock were reserved. These shares are exercisable cumulatively to the maximum of 3,125 shares or 11,875 shares on or before February 24, 1947 and 16,250 shares thereafter.

AND SUBSIDIARIES

BALANCE SHEET

1945 AND 1944

	1945	1944
LIABILITIES		
CURRENT LIABILITIES:		
Notes and mortgages payable within one year.....	\$ 55,000	\$ 32,559
Accounts payable	4,048,677	2,798,232
Accrued liabilities	1,013,332	960,914
Provision for Federal income taxes.....	932,366	777,829
Less—U. S. Treasury tax notes.....	906,771	510,408
Total current liabilities.....	\$ 5,142,604	\$ 4,059,126
LONG-TERM DEBT:		
Serial notes, dated April 1, 1945, due 1947 to 1960, interest rate 1% to 3%.....	\$ 1,450,000	\$
Real estate mortgages.....	15,000	230,167
	\$ 1,465,000	\$ 230,167
RESERVE FOR SELF-INSURANCE.....	\$ 167,978	\$ 172,573
CAPITAL STOCK AND SURPLUS (Note 1):		
Capital stock—		
Preferred stock—		
4¼% cumulative, par value \$50, authorized and issued 40,000 shares..	\$ 2,000,000	\$
5½% cumulative (retired during 1945).....		2,000,000
Common stock, par value \$10, authorized 800,000 shares, issued 660,000 shares (changed from no par value during 1945).....	6,600,000	8,250,000
Surplus—		
Paid-in surplus, representing reduction in stated value of common stock during 1945	1,650,000	
Earned surplus	4,389,513	4,159,524
	\$14,639,513	\$14,409,524
Less—Treasury stock at approximate cost—		
5½% preferred stock — 56,893 shares	\$	\$ 565,498
Common stock—36,100 and 37,350 shares, respectively (Note 2)	379,271	400,909
	\$ 379,271	\$ 966,407
	\$14,260,242	\$13,443,117
	\$21,035,824	\$17,904,983

corporation include, among other things, the following provisions:
any capital stock may not exceed 80% of consolidated net earnings accumu-

to the extent of \$170,000, the consolidated net current assets remaining after stock must equal \$5,500,000 and \$5,670,000, respectively

beginning in 1946, a sinking fund for retirement of preferred stock in an et income over the preferred dividend requirement or \$66,667, whichever

ed against options to officers for purchase at \$16.00 per share. These options n or before February 24, 1946, 7,500 shares on or before August 24, 1946, on or before August 24, 1947.

NATIONAL TEA CO. AND SUBSIDIARIES
Statements of Consolidated Income

FOR THE YEARS ENDED DECEMBER 31, 1945 AND 1944

	1945	1944
SALES	\$106,868,995	\$99,870,475
COST OF SALES AND EXPENSES (including sales and occupational taxes)	104,719,882	98,088,928
Net profit from operations	\$ 2,149,113	\$ 1,781,547
INCOME DEDUCTIONS:		
Interest	\$ 39,892	\$ 27,378
Loss on disposal of fixed assets	271,163	23,202
	\$ 311,055	\$ 50,580
Net profit before Federal income taxes	\$ 1,838,058	\$ 1,730,967
PROVISION FOR ESTIMATED FEDERAL INCOME TAXES	1,044,000	994,000
Net profit for year	\$ 794,058	\$ 736,967
SPECIAL CREDITS:		
Depreciation, prior years, disallowed for Federal income tax purposes less applicable income tax		35,696
Reduction in Federal income taxes for the year attributable to carry-forward of unused excess profits credit of prior years	119,000	294,000
Total net profit and special credits	\$ 913,058	\$ 1,066,663

NOTE: Provision for depreciation amounting to \$491,936 in 1945 and \$498,382 in 1944 is included in expenses above.

Statements of Consolidated Earned Surplus

FOR THE YEARS ENDED DECEMBER 31, 1945 AND 1944

	1945	1944
BALANCE AT BEGINNING OF YEAR	\$ 4,159,524	\$ 3,327,227
ADD—Total net profit and special credits as above	913,058	1,066,663
	\$ 5,072,582	\$ 4,393,890
DEDUCT:		
Accrued dividends applicable to 5½% preferred stock which were not declared but considered as a portion of the redemption price	\$ 19,676	\$
Commission and expense in connection with sale of 4¼% preferred stock, etc.	50,525	
Dividends paid or accrued—		
5½% preferred stock	19,678	78,703
4¼% preferred stock	63,750	
Common stock (85c and 25c per share, respectively)	529,440	155,663
	\$ 683,069	\$ 234,366
BALANCE AT END OF YEAR (see Note 1 to balance sheet)	\$ 4,389,513	\$ 4,159,524

AUDITORS' CERTIFICATE

ARTHUR ANDERSEN & CO.

120 SOUTH LA SALLE STREET
CHICAGO 3

TO THE BOARD OF DIRECTORS,
NATIONAL TEA CO.:

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation) and Subsidiaries as of December 31, 1945 and the statements of consolidated income and earned surplus for the year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated income and earned surplus present fairly the position of National Tea Co. and Subsidiaries at December 31, 1945, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois.

February 12, 1946.

OFFICERS AND DIRECTORS

OF NATIONAL TEA CO.

Directors

JOHN F. CUNEO

RAYMOND P. FISCHER

JOHN V. FARWELL III

ARTHUR J. HANSEN

GUY A. THOMAS

HARLEY V. McNAMARA

ROBERT V. RASMUSSEN

WILLIAM E. RUSSELL

ROBERT E. STRAUS

Officers

ROBERT V. RASMUSSEN

President

HARLEY V. McNAMARA

Executive Vice President

WILLIAM E. RUSSELL

Secretary-Treasurer

CLARENCE E. BEARD

Assistant Treasurer

ARTHUR J. HANSEN

Vice President

CHARLES WOODING

Assistant Comptroller



Transfer Agents

The First National Bank
38 S. Dearborn Street
Chicago, Illinois

The Chase National Bank
11 Broad Street
New York, N. Y.

Registrars

Continental Illinois National
Bank and Trust Co.
231 S. LaSalle Street
Chicago, Illinois

The New York Trust Company
100 Broadway
New York, N. Y.



SOME OF OUR OWN PRODUCTS

Our Manufacturing Departments give us quality products, under our own brands, that customers can purchase only at National Food Stores.

Manufacturing of our own products is advantageous to our company, particularly during periods of shortages, as we have a definite source of supply.

